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ABSTRACT

This report highlights research that examined education finance data for the 1998-99 school year, the year prior to the introduction of finance reforms in New Hampshire, and the 1999-00 to 2001-02 school years, the 3 years following the introduction of reform. Following are some of the conclusions about New Hampshire's education finance reform. Reform has done little to alter the overall per-public expenditure patterns of New Hampshire communities. Because expenditure changes are not very responsive to the size of education grants, even with very large increases in state aid, the current education-funding system will not narrow per-pupil spending differences. Decreases in local property taxes since reform were greater in communities with higher median incomes than in communities with lower median household incomes. Reform has dramatically changed the price that communities pay for local education services. Neither increasing the level of state support nor making minor adjustments to the formula used to determine how state aid is distributed to each community will alter these results. These findings suggest that current reforms will not achieve key policy objectives and that education finance reform will continue to dominate the public policy agenda in New Hampshire. (Author/WFA)

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The Results of the New Hampshire Education Funding Reform

By Brian J. Gottlob
PolEcon Research

June 2003

The Josiah Bartlett Center for Public Policy

EA 032 776

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The Josiah Bartlett Center for Public Policy

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About the Author

Brian J. Gottlob is the Principal of PolEcon Research. For fifteen years Brian has analyzed economic, demographic, fiscal, labor market and industry trends for private sector, government and not-for-profit organizations. Brian has extensive experience using and developing econometric models and with preparing economic, demographic, and fiscal impact analyses. He is a regular commentator in the media and a frequently requested speaker at seminars and conferences on issues affecting the economy. For ten years, Brian was a Vice President of the Business and Industry Association of New Hampshire where he conducted research on the New Hampshire economy and where he guided the organization's fiscal and economic policy activities. During that time, he developed a solid reputation among lawmakers, public officials, and the business community for his ability to produce accurate forecasts and projections of the impacts of changes in tax, regulatory and other public policy actions. Brian is on the Advisory Board of the New England Economic Project (NEEP), is a member of the National Association of Business Economics and is a part-time instructor at the Whittemore School of Business and Economics at the University of New Hampshire. Brian can be reached by email at bgottlob@poleconresearch.com.

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Foreword

In 1999, New Hampshire – spurred by the Supreme Court's Claremont decision – embarked on a new education funding system. In theory, the new system hoped to help poorer towns by making it easier for them to spend money on education relative to richer towns and by reducing their tax burden relative to richer towns.

In March of 1999, Emily Mead, then-President of the Josiah Bartlett Center for Public Policy warned about "a public policy debate that would use blunt instruments – the chain saws and hammers of statewide tax policy – to affect massive changes in our state's fiscal landscape and potentially our economy, with little evidence that they'll have any impact on the faucet that's leaking – the education we provide to our children."

> *If the lessons learned by other states have any meaning, we're pursuing the wrong course. In state after state, sweeping changes in tax policy, implemented in response to court decisions very much like New Hampshire's, have had little or no impact on the adequacy of public education. State after state has been left with a whole set of new plumbing, and a faucet called public education that still leaks. New Hampshire appears to be on course to repeat this experience.*
>
> *Ideas, March 1999*
> *Emily M. Mead*
> *President*
> *The Josiah Bartlett Center for Public Policy*

Well, we've lived with the current system for four years now, long enough to examine how well it's working. Brian Gottlob, president of PolEcon Research, analyzed the consequences of the current system for The Josiah Bartlett Center for Public Policy. An objective reading of his analysis can only lead to the conclusion that our current system of education funding is not just ineffective but is making things worse than if we hadn't bothered.

First of all, the gap in education spending isn't changing. Although towns with less property wealth received larger grants, spending increases were nearly the same across property wealth quintiles regardless of size. For example, the poorest towns received grants of $3,082 per pupil and increased spending $536 per pupil. Medium property wealth towns increased spending $547 per pupil despite receiving $1,000 less per pupil.

Second, tax rates in poor towns didn't decline nearly as much as in medium property wealth income towns. With the exception of donor towns, upper, middle and low property wealth towns saw a reduction in tax rates because of higher assessments. However, rates declined only 16% in the bottom quintile but 26%, 21%, and 21% in the three middle quintiles. So the property poor communities lost ground on taxes as well as on spending.

Clearly, the education finance system isn't making a difference for property poor towns. However, the convoluted nature of the system is having an insidious unintended consequence on another group of towns.

The Center's study also calculated a "tax price" for each town – that is, the average amount a town paid for $1.00 of educational services. Towns with high state aid pay less

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because the state assumes a share. On average the poorest communities paid 52 cents for a dollar. The general goal of education aid is for the state to assume a share of the price for those towns that can't afford it.

However our reform accidentally created a system where donor towns paid an average tax price of $1.36 per dollar of education, effectively penalizing them for education spending. While every other town receives a grant from the state, these towns send an average of 36% of their school budget to the state to support grants to other communities.

You see, while 95% of the so-called "statewide" property tax is raised locally and kept locally, the state uses donor town payments to fund about $25 million of the $444 million in education grants. Because of that glitch, a group of towns with higher property values (but that includes the lowest income town in the state) has punitive education tax prices – a sort of "negative state aid."

Without question, that punitive tax price will drive spending down in those towns over time. So, while state aid might be used to lower the tax price even further in the neediest towns, no reform in a free society ought to inflict punitive tax prices on other communities. Sensible education policy shouldn't have the unintended consequence of forcing unwanted cuts on a class of towns.

To make matters worse, the way our system picks the donors is problematic. The current system defines rich and poor solely on the basis of property valuations so the town with the lowest median income in the state (Lincoln) is classified as rich (as are 21 others with below average incomes[1]) and the four highest income towns (Windham, Hollis, Amherst and Bedford) receive almost $10 million in state aid.

The current education funding system is clearly a failure. It has made little or no difference with the poorest towns on education spending, has seen them lose ground on tax rates, and has created a punitive class of towns.

Just over one hundred years ago, Charles Dudley Warner wrote in the *Hartford Courant* "everyone talks about the weather but nobody does anything about it." He might just as well have been talking about New Hampshire and its education funding system.

While most politicians admit the current system needs to be "fixed," the legislature has shied away from wholesale change. However, an analysis of the abject failure of the current system suggests the time for minor fixes has long gone by. At this point wholesale changes are demanded.

Charles M. Arlinghaus
President
The Josiah Bartlett Center for Public Policy

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[1] Lincoln has the smallest median household income in the state ($28,523) and is a donor town but 21 other donor towns have median incomes below the state median ($49,467) including Errol, Stoddard, Pittsburg, Bartlett, Carroll, Franconia, Freedom, Waterville Valley, Hart's Location, Meredith, Alton, Wolfeboro, Moultonborough, Portsmouth, Tuftonboro, Sandwich, Hebron, Holderness, Easton, Sugar Hill, Sunapee.

The Results of the New Hampshire Education Funding Reform

By Brian J. Gottlob, PolEcon Research

I. Introduction

Four years into landmark education finance reform, New Hampshire should now examine the results reform has produced. Lawmakers, educators, and citizens debating proposals to alter New Hampshire's new education financing system must review the impacts of this $900 million program ($400+ million at the state level from non-property tax sources) before deciding if and how the current system should be changed.

Since it was enacted in 1999, education finance reform in New Hampshire has done little to resolve the education funding issue. Education finance issues dominate the public policy agenda of New Hampshire state government in 2003 just as they did in 1998. Lawmakers continue to debate the appropriate level of state education aid to communities, how to raise revenues to fund state aid, and how the aid should be distributed to communities. Absent from the list is the degree to which education finance reforms have actually achieved their policy objectives. One clear objective of reform was to satisfy a New Hampshire Supreme Court decision. Beyond that, there is no definitive statement of policy objective. The legislative debates over reform proposals, however, made it apparent that in complying with a court decision, lawmakers hoped reform would narrow differences in per pupil education expenditures and the tax rates that pay for them, across communities in New Hampshire. More specifically, the objectives were to raise expenditure levels and lower tax rates in New Hampshire's less wealthy communities relative to communities with greater income and property wealth.

This report highlights research by The Josiah Bartlett Center for Public Policy that examined education finance data for years that include the year prior to Claremont II finance reforms (1998-99 school year), and the three years following the introduction of reform (1999-00 to 2001-02 school years). Among the Center's conclusions about New Hampshire's education finance reform are:

- Reform has done little to alter the overall per pupil expenditure patterns of New Hampshire communities. Neither the dollar change nor the percentage change in per pupil expenditures that have occurred since reform, are significantly related to the amount a school district receives in per pupil aid. (Section II.)
- Because expenditure changes are not very responsive to the size of education grants, even with very large increases in state aid, the current education funding system will not narrow per pupil spending differences. (Section III.)
- Decreases in local property taxes since reform were greater in communities with higher median household incomes than in communities with lower median household incomes. (Section V.)

- Reform has lowered property tax rates for most (non-donor) NH communities, but rising property values since reform have had as large an impact on local property tax rates as has increased state aid. (Section VI.)
- Reform has dramatically changed the price that communities pay for local education services. At one extreme, the "price" that donor communities must (on average) pay is $1.36 to obtain $1.00 of local education services and there is some evidence that this has resulted in smaller percentage increases in expenditures in "donor" towns. (Section VII.)
- Finally, we conclude that neither increasing the level of state support, nor making minor adjustments to the formula used to determine how state aid is distributed to each community, will alter these results.

These findings have important implications for the future of education finance in New Hampshire. They suggest that current reforms will not achieve key policy objectives and that education finance reform will continue to dominate the public policy agenda in New Hampshire. In addition, a program such as state education aid, that has rapidly increasing costs, that is inefficient or unable to achieve policy objectives, and which has first claim on state resources (because of court mandates), will have profound impacts on the overall efficiency and ability of state government to meet other important needs and achieve key public policy objectives in areas other than education.

II. State Cash Grants of Over $400 Million Have Not Narrowed Spending Differences Among Communities

Public and legislative support for education finance reform in New Hampshire derives primarily from the belief that inequities exist in education spending (and thus educational opportunities) among communities and that these spending differences largely result from the difference in local property tax wealth.

The assumption that community property tax wealth determines the level of education expenditures in a community has led education finance reform in New Hampshire and other states to use some method to adjust the tax base of communities so that all communities can raise a similar amount of revenue at a specified tax rate. By making the tax base of communities more similar for education funding purposes, policymakers expect differences in expenditures will also narrow.

We examined the per pupil expenditures for elementary students[2] in each community both before and after enactment of New Hampshire's education finance reform to determine how per pupil expenditure differences have changed as a result of New Hampshire's reform. Figure #1 divides communities into five groups according to their

[2] Elementary school expenditures were used because a large number of communities have elementary schools where expenditure decisions are completely within the control of one community. Multi-community and cooperative elementary, middle, and high schools have expenditure levels that are the result of many factors, including tuition agreements, that confound any analysis of the impact of reform on expenditures.

property tax wealth per pupil (a measure of the tax base that supports each public student). Communities with the lowest per pupil taxable property are in quintile 1, and those with the highest per pupil property wealth are in quintile 5[3].

Figure #1 shows that per pupil state grants are weighted toward towns with lower property wealth, but that changes in expenditures between the 1998-99 and 2001-2002 school years were not related to the size of the grant.

Per Pupil Education Grants are Weighted to Low Property Valuation Towns But Pupil Expenditure Changes Between 1999 and 2002 Were Nearly the Same Regardless of the Size of the Town's Grant

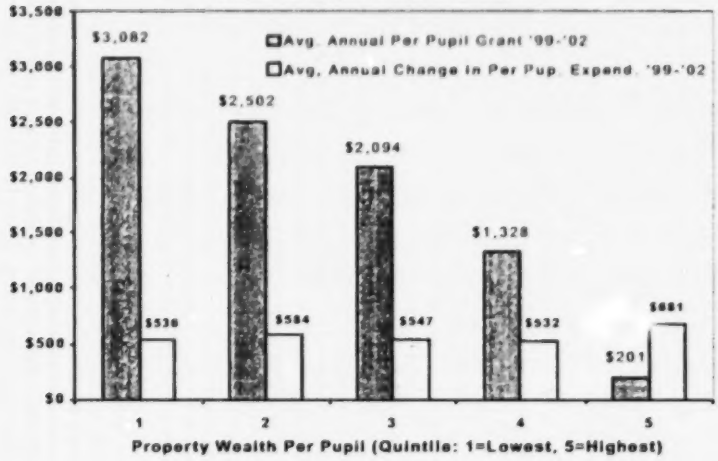

Figure 1

III. Even Dramatic Increases in the Total Amount of State Cash Grants to Communities Will Not Significantly Narrow Per Pupil Expenditures Under the Current Funding System

Our analyses[4] suggest that there is a small, positive relationship between the size of the per pupil grant and the dollar change in per pupil expenditures since 1999, but that the relationship is not significant.[5]

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[3] Although we use statistical methods such as regression analysis to determine the relationship between variables such as property wealth, state aid, and per pupil expenditures, we divide communities into quintiles on key variables of interest (per pupil property wealth of communities, size of per pupil state grants) to help make the relationships between variables more visually apparent.

[4] Using ordinary least squares regression models.

[5] "Significance" means that we are at least 95% certain that there is a genuine relationship between the two variables and that the results did not occur by chance.

Overall, the Size of Per Pupil Grants had Little Impact on Changes in Expenditures – But Grants had the Most Impact on Education Expenditures of Poorer Communities

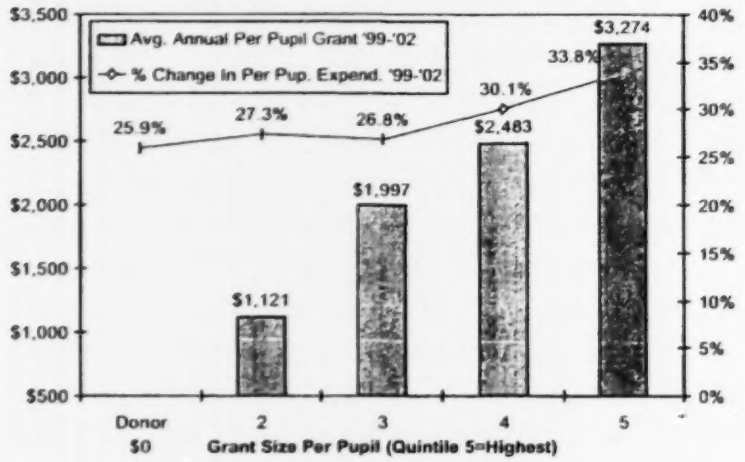

Figure 2

Controlling the income and property wealth levels of a community, we found that a 10 percent increase in the size of per pupil grants received by a community is associated with a 0.7 percent (seven tenths of one percent) increase in per pupil expenditures since 1999. This implies that for communities of similar income and with similar growth in property values since 1999, a community that received per pupil grants that are twice as large as other communities, would only have increased expenditures 7 percent more than the community that received per pupil grants half as large.

Figure #2 shows that the size of per pupil grants communities received had little impact on the overall percentage change in per pupil expenditures.

The Chart also suggests that:

- State aid appears to have the biggest impact on the expenditures of the poorest communities but the impact is still small.
- Spending by communities in the middle and higher range of property wealth, on average, grew by about the same percentage whether they received $0 in per pupil grants (donor towns) or $2,000 (the middle or 3rd quintile).
- A large percentage of state aid functions as general revenue sharing.

The small changes in per pupil expenditures that occur in response to higher per pupil grants suggests that under the current financing system, even very large increases in state aid (e.g. a doubling) will not significantly narrow expenditure differences among communities.

Figure #3 presents the overall impact that state aid has had on narrowing differences in per pupil expenditures of communities in New Hampshire. Communities are again divided into quintiles according to per pupil property wealth The chart compares per pupil expenditures in each of the property wealth quintiles both before and after three years of reform.

Education funding reform has largely been debated using examples of and highlighting the differences in education finance of a few communities at the top and bottom of per pupil expenditure and property wealth extremes. Figure #3 shows that, with the exception of a small number at the extremes, the per pupil expenditures of communities are in a relatively narrow range and this has not changed as a result of increased state aid.

With the Exception of a Few Communities at the Extremes, Most Communities Were in a Narrow Range on Per Pupil Expenditures in 1998 and After Reform That Continues to be True

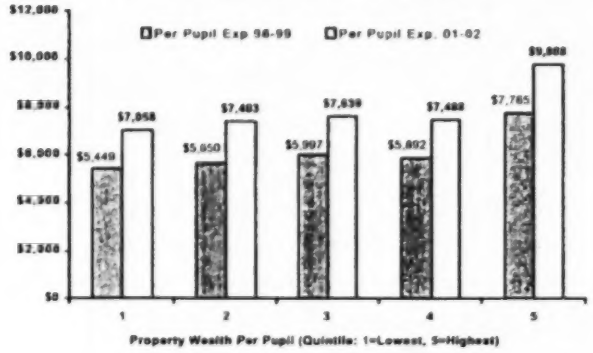

Figure 3

IV. State Cash Grants Appear Most Effective in Achieving Educational Policy Objectives for the Least Wealthy Communities

Overall, larger state education grants are associated with only small increases in per pupil expenditures, but the relationship between state grants and expenditure varies along the continuum of community wealth.

Specifically, the relationship between the size of state cash grants and per pupil expenditures is weakest for communities in the middle (3rd and 4th quintiles) of all New Hampshire communities on measures of income and property wealth (at the highest end of property wealth communities do not receive cash grants and are "donor towns").

Compared to communities in the lowest two per pupil property wealth quintiles, communities in the middle and 4th quintile have smaller changes in per pupil expenditures in response to larger grants. It is possible that communities close to or above the median on wealth or on per pupil expenditures, feel less need to alter expenditures in response to state cash grants. Or, communities in these quintiles may have a greater preference for tax relief over increases in educational and other services.

To make the relationships visually apparent, Figure # 4 shows the changes in expenditures and tax rates and per pupil expenditures that have occurred in communities grouped according to how much per pupil state education aid they receive. "Donor towns" receive no per pupil aid, and communities in quintile 5 receive the highest amount of per pupil aid.[6] In addition, the percentage change in per pupil valuation in each quintile is presented because changes in tax rates are affected by property valuation as well as state education aid.

These findings have important implications for the design of an efficient state education aid system. They suggest that on average, for communities in the middle of all New Hampshire communities on measures of property and income wealth, and on the size of state per pupil grants, state aid functions more like general revenue sharing than does state aid to less wealthy communities.

Figure # 4 shows that communities that received the largest per pupil grants had larger per pupil expenditure increases between 1998 and 2002, at the same time they had a significantly smaller decrease in total tax rates (suggesting that state aid may have been used to support other municipal services), and that communities in the middle range of per pupil grants (quintiles 3 & 4) had smaller per pupil increases but more significant property tax decreases.

These findings have important implications for the design of an efficient state education aid system. They suggests that on average, for communities in the middle of all New Hampshire communities on measures of property and income wealth, and on the size of state per pupil grants, state aid functions more like general revenue sharing than does state aid to less wealthy communities. For communities in the lowest property wealth quintiles, somewhat higher percentage increases in per pupil expenditures combined with much smaller declines in property tax rates indicates that state aid may be used for a variety of purposes, and thus functions more like a block grant than education aid.

[6] Changes in total local tax rates are used rather than education tax rates because under the current system of education aid, it is possible for communities to increase municipal spending in response to decreases in education tax rates resulting from state aid.

Communities in the Middle Range of Per Pupil Grants (About $2,000), had the Largest Decrease in Property Tax Rates Between 1999 and 2002 and the Smallest Dollar Change Per Pupil Expenditure (Not Shown)

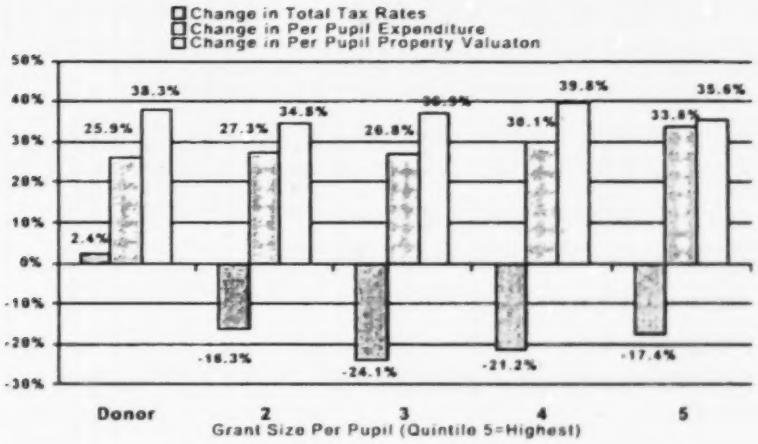

Figure 4

V. With the Exception of "Donor Towns", Property Tax Decreases were Similar, Regardless of the Property Wealth of Communities

Making local property tax rates more equal among New Hampshire communities is a primary policy objective of education finance reform. Because property taxes are a function of a number of factors, including community amenities, the nature, level, and perceived value of public services in a community, as well as property values (which themselves are, in part, a function of the nature, level, and perceived value of public services provided by a community), attempting to narrow differences in property taxes is problematic.

Moreover, because tax rates are not a measure of actual tax burden (lower tax rates applied to higher property values will result in tax payments that are similar to high tax rates applied to lower values), and because property tax rates are capitalized into property values (high tax rates reduce values and low taxes increase values) some of the perceived inequality resulting from differences in property tax rates is illusory.

… because tax rates are not a measure of actual tax burden (lower tax rates applied to higher property values will result in tax payments that are similar to high tax rates applied to lower property values), and because property tax rates are capitalized into property values (high tax rates reduce values and low taxes increase values) some of the perceived inequality resulting from differences in property tax rates is illusory.

Nevertheless, making tax rates more equal has been a key objective of education finance reforms throughout the country. Education finance reform has lowered property tax rates for most communities in New Hampshire. Lower tax rates in communities is not an indication that reform has achieved key objectives, however, because high tax rates can occur in wealthy communities as well as poorer communities and can result from a community's desire to spend more on education or to provide more or better municipal services. State education aid that lowers property tax rates in wealthier communities and in communities whose rates are high because they have a desire to provide a higher level of local services, or because they have chosen not to expand their local property tax base, functions as a state subsidy to wealthier towns for providing a higher level of services in their communities.

Assessing how well education finance reform has accomplished its policy goal of reducing perceived property tax inequities requires an understanding of the impact that reform has had on the tax rates of communities according to their property and income wealth.

Figure #5 shows that, with the exception of the highest per pupil property valuation communities (including donor towns), the dollar decrease in tax rates between 1998 and 2001 were nearly the same in higher property wealth communities as it was in lower property wealth communities.

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With the Exception of the Highest Property Wealth Communities, Tax Rates have Fallen by Similar Amounts

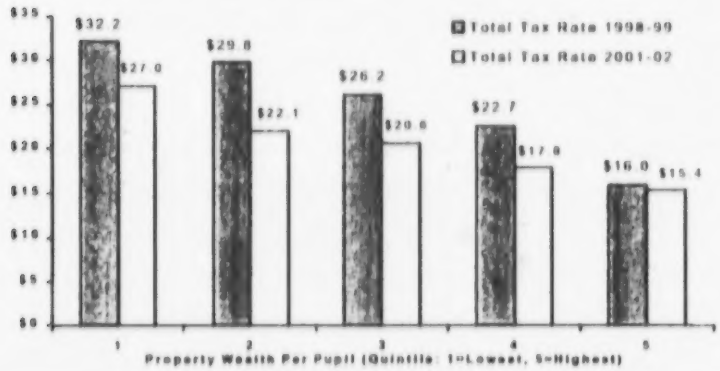

Figure 5

Figure #6 shows that on a percentage basis, tax rates declined by the largest percentage in communities in the middle of the property wealth continuum. The chart also shows the median household income of communities in the different property wealth quintiles and demonstrates that changes in tax rates since education finance reform have, on average, benefited communities with higher median incomes as much as it has benefited communities with lower median household incomes.

Property Tax Rates Decreased Less in the Highest Property Valuation Communities but the Household Income in These Communities (on Average) is Nearly the Same as in Communities With Much Lower Property Valuation

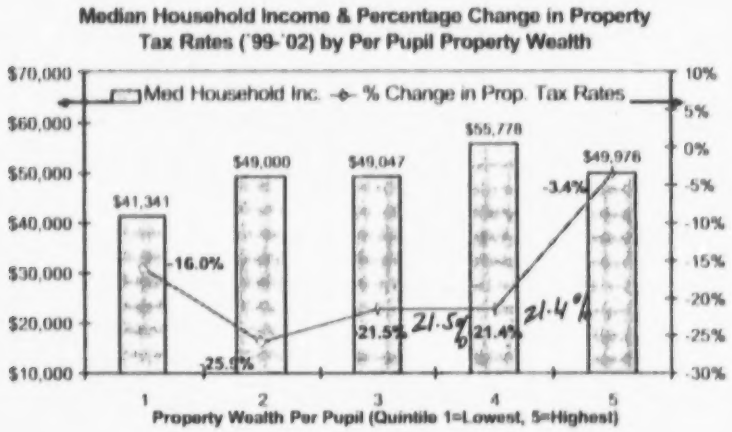

Figure 6

Figure #7 demonstrates a key argument made by opponents of the statewide property tax system. The chart divides New Hampshire communities into quintiles according to the per pupil amount of state aid they receive. The chart also presents the median household income of communities in each of the per pupil grant quintiles, along with the percentage change in total property tax rates that occurred in each between 1999 and 2001.

The chart shows that "donor towns" have, on average (but there are some with relatively high and low median incomes) median household incomes that are in the middle of all NH communities while receiving no state education compared to communities of similar median income that receive on average about $2,000 per pupil.

Figure #7 again shows that tax rate declines were greatest for communities in the middle on measures of household wealth, and on the size of per pupil state grants suggests that for communities in the middle range of property and income wealth, state aid to education is most likely to function as a general revenue sharing program rather than as program that influences educational expenditure decisions at the margin.

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With the Exception of Donor Towns, Decreases in Property Tax Rates were Similar in Higher Income and Lower Income Communities

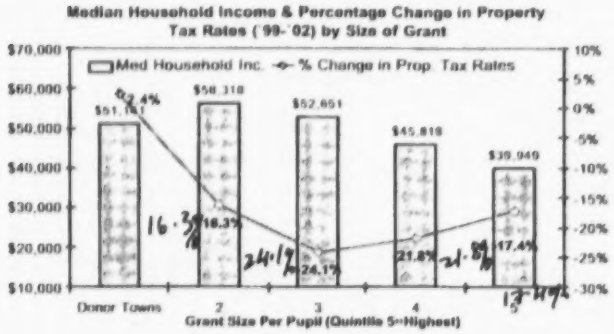

Figure 7

VI. Increases in Property Values have Influenced Property Tax Rate Declines as Much as have State Cash Grants

Figure #8 again presents the percentage change in property tax rates between 1998-99 and 2001-02 for communities grouped according to per pupil property wealth (donor towns are included in quintile 5 as well as broken out separately). The chart also presents the average percentage change in per pupil property valuations for communities in each of the quintiles and for donor towns. The data suggests that increases in per pupil property valuations have also played a significant role in the decrease in local property tax rates.

Changes in Total Tax Rates And Per Pupil Property Valuation Between 1998-99 and 2001-02

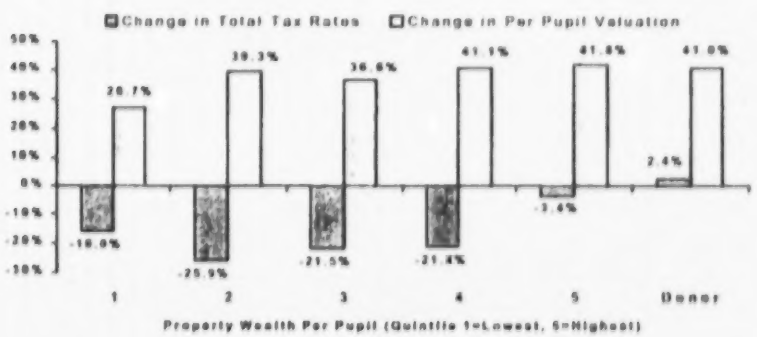

Figure 8

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To determine how important increases in property valuations, state education aid, and other variables were in lowering property taxes we developed a statistical model[7] to assess the importance of factors, in addition to per pupil state aid, that have influenced the changes in total local property tax rates that have occurred since education finance reform was enacted in New Hampshire in 1999. Using four variables (the size of per pupil grants, the percent change in educational expenditures, median household income, and the percentage change in per pupil valuation), our model explains over half of the variation in the changes in local tax rates that occurred since education finance reform was enacted.

Model details are presented in Appendix A. Model results show that per pupil grants and changes in per pupil property valuations between 1998 and 2001 each had a similar and significant impact on changes in property tax rates. The relationship is negative, meaning that as per pupil grants and changes in per pupil property valuations get larger, property tax rates declined further.

A significant and troubling finding from the model's statistical analysis is that since education reform was enacted, larger property tax declines are associated with communities having higher household median incomes. Combined with our analysis showing per pupil expenditure increases were greatest among property poorer towns, these results again suggest that state education aid, for all but the least wealthy of New Hampshire's communities, functions like general revenue sharing.

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The relationships in this model highlight one of the problems of measuring the success of education finance reform on the basis of changes in tax rates. Although tax rates have declined in response to state aid, the rapid rise in property valuations has also allowed significant expenditure increases to occur without significant increases in tax rates. For property owners, however, the benefits of lower property taxes are been significantly reduced because of large increases in property valuations, as lower tax rates are applied to property which has, on average, risen in value by nearly 40 percent since reform.

The problem is especially acute for "donor towns" whose tax rates did not decline, and this, along with rapid increases in property valuations since the late 1990's, has combined to dramatically increase the real tax burden on these communities.

The problem is especially acute for "donor towns" whose tax rates did not decline, and this, along with rapid increases in property valuations since the late 1990's, have combined to dramatically increase the real tax burden on these communities.

[7] Ordinary least squares (OLS) regression model

VII. Will The High "Price" of Education Reduce Expenditures for Some?

The goal of narrowing educational expenditure differences among communities can occur as a result of growth in expenditures of low spending communities, reduction in expenditures of high spending communities, or some combination of the two.

Most advocates of education finance reform want to narrow differences by increasing expenditures in lower spending communities rather than declines among high expenditure communities. One concern over the current reform system is that the statewide property tax portion of reform, in creating "donor towns", has so significantly raised the local "price" (price is not measured by the tax rate but rather the percentage of education expenditures that are paid for by local dollars) of educational services in donor communities that educational expenditures in these communities will be reduced. If donor communities reduce (or slow the spending growth below what is their preferred level) because of the taxes they must pay to the state, and the dollars are distributed to communities that do not use those funds for education, then it is possible that educational expenditures can be lower than they would have been without the statewide property tax.

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To determine if this has occurred, we calculated the "price" that each community must pay to provide educational services in its community since reform was enacted, to see if there is a relationship between price and changes in expenditures since reform was enacted.

The local "price" of educational services, in our analysis, is the percentage of per pupil expenditures that is supported by local property tax dollars. Communities that receive high per pupil grants have lower prices, while donor communities have the highest price because a portion of the money raised locally is distributed to other communities. As Figure #9 indicates, "donor towns" paid on average, a price of $1.36 to obtain one dollar's worth of education services. The chart also indicates that, on average, communities that paid the highest "price" to obtain educational services generally had smaller rates of expenditure increases.

The "Price" or Local Cost For Each Dollar of Per Pupil Education Expenditures May Have Slowed Expenditures Growth in High "Price" Towns

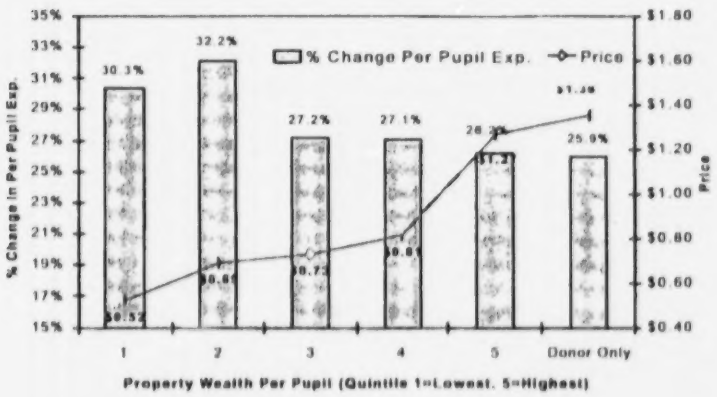

Figure 9

These results are not significant enough to conclude that the higher prices faced by some communities will constrain their educational expenditures relative to lower price communities. Over a longer period of time the expenditure difference may become larger, and during times when property values are not rising as rapidly as they have over the past several years, it may be more difficult for donor towns to maintain desired levels of expenditure growth.

VIII. Conclusions

The experience of educational finance reform throughout the country is that after the tax rate impacts of reform have been realized, reform advocates call for greater centralization of school finance to guarantee greater similarity in per pupil expenditures.

Based on our results, we expect advocates of finance reform to push for a much greater share of education expenditures to be paid for by the state. At the same time, our results suggest that the current system of education finance will not produce a narrowing of expenditure differences among New Hampshire communities even if the state were to dramatically increase its share of education costs.

The analyses presented here indicate that the New Hampshire's commitment of over $400 million annually to reform public education finance has produced very little real reform. Differences in educational expenditures among communities have not been narrowed and although local property tax rates have declined, the distribution of the

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declines among wealthier and poorer communities, along with the impact that rising property values has had on tax rates, makes claims of reform dubious.

The first rule of economics is that resources are scare and that they have alternative uses, so that competition and rationing are both inherent in any economic system. The first rule of politics is often to forget about the first rules of economics. This is demonstrated in New Hampshire when education finance reform becomes an entitlement that is inefficient in achieving important policy objectives and policymakers and the public assume that other state policies and activities will not be affected. The consequences of inefficiency of education reform extend beyond education policy to other activities of state and local government because rationing of resources must and will occur.

New Hampshire cannot choose whether education funding will compete with other activities for state resources by simply removing it from the state's General Fund. Resources are limited and will be rationed, notwithstanding court mandates and special revenue funds. This report suggests that if New Hampshire's current system of providing state aid to education did not have first claim on state resources, its ability to achieve its intended goals would put it at a competitive disadvantage in the competition for scarce state resources.

Data Sources

New Hampshire Department of Revenue, *Adequate Education Costs, Grants, & Warrants*, (Various Years).

New Hampshire Department of Education, *Costs Per Pupil By District*, (Various Years).

U.S. Bureau of the Census, *2000 Decennial Census.*

Appendix A

Tax Rate Change Model Details

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Significance
1	.740	.547	.534	.1321	44.647	.000

Dependent variable: Percent Change in local tax rate

Coefficients

		Unstandard-ized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.323	.058		5.523	.000		
	Per Pupil Grant 01-02	-3.652E-02	.004	-.547	-9.379	.000	.967	1.034
	% Change Per Pupil Val.	-.435	.055	-.470	-7.957	.000	.941	1.063
	Median HH Income 2000 Census	-2.352E-06	.000	-.171	-2.807	.006	.887	1.127
	% Change in Ed. Expend.	.103	.071	.085	1.458	.147	.961	1.041

Dependent Variable: % Change tot al local property tax rates between 1998-99 and 2001-02.

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